

Message Text

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ACTION EA-14

INFO OCT-01 ADP-00 AID-20 SS-15 NSC-10 EB-11 TRSE-00 L-03

CIAE-00 DODE-00 INR-10 NSAE-00 PA-03 RSC-01 USIA-15

PRS-01 FRB-02 COME-00 IGA-02 CIEP-02 OMB-01 CEA-02

RSR-01 OPIC-12 AGR-20 /146 W
----- 102855

R 300850Z AUG 73

FM AMEMBASSY SAIGON

TO SECSTATE WASHDC 6579

C O N F I D E N T I A L SAIGON 15651

E.O. 11652: GDS

TAGS: EFIN, EAID, ETRD, EAGR, VS

SUBJECT: ECONOMIC POLICY

REF: STATE 164638

1. WE AGREE THAT CONTINUED SLUGGISHNESS OF THE VN ECONOMY AND LACK OF EXCHANGE RATE MOVEMENTS ARE MAJOR CONCERNS.
2. IN VIEW OF THE CONTINUING NEED TO REDUCE DEPENDENCE ON AID, THE PRINCIPLE OF FLEXIBLE RATES MUST BE KEPT ALIVE AND A RETURN TO OVERVALUED RATE COMBINED WITH IMPORT LICENSING AVOIDED. TO AFFIRM THAT PRINCIPLE, A TOKEN DEVALUATION IS NOW IN ORDER.
3. HOWEVER, DEVALUATION IN 1972 AND 1973 COMBINED WITH RISING DOLLAR PRICES SEEM TO HAVE CONTRIBUTED TO THE CURRENT SLUGGISHNESS. OTHER MAJOR CAUSES ARE THE CONTINUING EFFECTS OF THE 1972 OFFENSIVE AND THE US WITHDRAWAL.
4. INCREASED PIASTER IMPORT PRICES HAVE MEANT SHARPLY INCREASED PIASTER EXPENDITURES FOR IMPORTS. GIVEN THE LEVELLING OFF OF COMBINED GVN AND US EXPENDITURES, INCREASED PIASTER IMPORT EXPENDITURES HAVE MEANT CORRESPONDINGLY LESS DEMAND FOR DOMESTIC PRODUCTS IN GENERAL. THIS IN TURN REFLECTS A LACK OF RESPONSIVE-
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NESS OF THE DOMESTIC ECONOMY TO PRICE INCENTIVES PROVIDED BY

DEVALUATION. HAD DOMESTIC SUPPLY INCREASED RAPIDLY IMPORT DEMAND WOULD NOT HAVE PROVED SO INELASTIC. HOWEVER, INCREASED OUTPUT OF IMPORT SUBSTITUTES CLEARLY FACES BARRIERS AND TAKES TIME.

5. WHILE A SUBSTANTIAL DEVALUATION NOW WOULD IMPEDE ECONOMIC RECOVERY, IT WILL BE ESSENTIAL WHEN THE PACE OF ECONOMIC ACTIVITY IS ACCELERATED, GIVEN THE BALANCE OF PAYMENTS OUTLOOK. ABOVE ALL, THE PACE OF RECOVERY MUST NOT BE SLOWED IN ORDER TO AVOID DEVALUATION.

6. OF COURSE IF THERE ARE SIGNS OF OVERVALUATION SUCH AS INCREASING LICENSE APPLICATIONS, RISING BLACK MARKET RATES OR AN UNACCEPTABLE LOSS OF RESERVES, A LARGE DEVALUATION MAY BE NEEDED EVEN THOUGH IT EXERTS A DEPRESSING INFLUENCE. DOMESTIC EXPANSION IS THEN THE APPROPRIATE CURE.

7. WE DO NOT AGREE THAT A RISE IN DOMESTIC PRICES ALONE IS AN ADEQUATE CRITERION FOR DEVALUATION WHEN SUCH A RISE RESULTS LARGELY FROM INCREASED IMPORT PRICES WHICH THEMSELVES ARE EQUIVALENT TO DEVALUATION.

8. WE AGREE THERE IS A USEFUL TRADE-OFF BETWEEN RAISING THE CIP RATE AND REDUCING ADVANCE DEPOSIT REQUIREMENTS. SUCH A REDUCTION WOULD RELIEVE TIGHT DOMESTIC CREDIT. IN ADDITION, SINCE BANK CREDIT IS GENERALLY TIGHT, A GENERAL LOOSENING IS APPROPRIATE.

9. WE AGREE WITH PARA 5 THAT INVESTMENT IS NECESSARY BUT WOULD STRESS THE NEED FOR LABOR INTENSIVE PUBLIC AND PRIVATE PROJECTS THAT ECONOMIZE ON SCARCE CAPITAL.

10. ALL THE FACTORS YOU MENTION IN PARA 5 ARE RELEVANT TO THE LACK OF INVESTMENT. IN ADDITION, THE RECESSION ITSELF IS A MAJOR DETERRENT, AS MANY FIRMS HAVE UNUSED CAPACITY.

11. IN OUR VIEW WHAT IS NEEDED IMMEDIATELY ARE POSITIVE MEASURES TO RELIEVE THE RECESSION. SO FAR THE GVN HAS NOT REACHED A CONSENSUS ON THE PROBLEM OR A SOLUTION. WE ARE CONTINUING INFORMAL DISCUSSIONS, EMPHASIZING MEASURES TO INCREASE EMPLOYMENT AND PRODUCTION IN WAYS THAT WILL CONTRIBUTE TO THE LONG-RUN OBJECTIVES OF DEVELOPMENT AND EVENTUAL INDEPENDENCE OF AID.

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12. THE FOLLOWING LIST OF POSSIBLE MEASURES ILLUSTRATES WHAT WE HAVE IN MIND:

A. EASING OF CREDIT FOR DOMESTIC PRODUCTION. THIS COULD BE ACCOMPLISHED BY INCREASING THE LOAN-DEPOSIT RATION, REDUCING ADVANCE DEPOSIT REQUIREMENTS FOR SELECTIVE IMPORTS, AND MAKING WORKING CAPITAL AVAILABLE THROUGH NEDEF.

B. GOING EASY ON FURTHER DEVALUATION UNTIL THERE IS EXCESS DEMAND FOR FOREIGN EXCHANGE.

C. PROVISION OF MUCH MORE AGRICULTURAL PRODUCTION CREDIT, ESPECIALLY FOR RESETTLED REFUGEES.

D. DANANG-TYPE PROJECTS, WHERE FEASIBLE, IN CITIES WITH LARGE UNEMPLOYMENT.

E. SMALL-SCALE PUBLIC WORKS PROJECTS THAT WILL YIELD A HIGH SHORT-TERM INCREASE IN PRODUCTION.

F. IMMEDIATE ESTABLISHMENT OF AN EXPORT PROCESSING ZONE IN SAIGON AREA.

G. REMOVAL OF ADMINISTRATIVE OBSTACLES TO INVESTMENT AND PRODUCTION IN BOTH INDUSTRY AND AGRICULTURE. STRENGTHEN THE INVESTMENT SERVICE CENTER WITH ADDITIONAL STAFF AND POWERS OF APPEAL TO THE PRIME MINISTER FOR REMOVAL OF OBSTACLES.

13. THE ABOVE WAS REVIEWED WITH COOPER.
MARTIN

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